

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 EPG-02 DODE-00 EB-07 FPC-01 H-01
INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04
USIA-06 OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07
IGA-02 PA-01 PRS-01 NEA-10 /114 W
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R 141358Z MAY 77
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC 7649
INFO AMEMBASSY LA PAZ

C O N F I D E N T I A L SECTION 1 OF 2 CARACAS 4830

LAPAZ FOR ASSISTANT SECRETARY TODMAN

E.O. 11652: GDS
TAGS: ENRG, OPEC, VE
SUBJECT: CONVERSATION BETWEEN ASSISTANT SECRETARY TODMAN
AND MINISTER OF ENERGY HERNANDEZ

1. SUMMARY. MEETING WITH ASST. SECRETARY TODMAN, VENEZUELA'S
MINISTER OF ENERGY HERNANDEZ EXPRESSED INTEREST IN DISCUSSING
COOPERATIVE ENERGY PROJECTS WITH US INSTITUTIONS, PARTICULARLY
IN THE FIELD OF HEAVY OIL PRODUCTION, WHILE IN THE US WITH
PRESIDENT PEREZ IN JUNE. HE ALSO WOULD LIKE TO HOLD PERIODIC
BUT INFORMAL CONSULTATIONS WITH US ENERGY OFFICIALS, BEGINNING
WITH THIS VISIT. HERNANDEZ REVIEWED RECENT OPEC DEVELOPMENTS
AND SPECIFIC ASPECTS OF US AND VENEZUELAN ENERGY POLICIES. HE
EXPECTS THAT AT LEAST SOME OF THE ISSUES STILL PENDING FROM
VENEZUELA'S OIL NATIONALIZATION WILL BE RESOLVED BEFORE THE
VISIT. END SUMMARY.

2. ASSISTANT SECRETARY TODMAN, ACCOMPANIED BY THE AMBASSADOR
CALLED ON MINISTER OF ENERGY, AND MINES VALENTIN HERNANDEZ ACOSTA
MAY 10. MINISTER HERNANDEZ HAD RETURNED TO CARACAS ONLY A FEW
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DAYS EARLIER, HAVING ACCOMPANIED PRESIDENT PEREZ ON HIS MIDDLE
EAST TRIP. HE DESCRIBED THE TRIP AS VERY POSITIVE, AS IT HAD
SERVED TO BRING THE GOVERNMENTS OF SAUDI ARABIA AND IRAN CLOSER
TOGETHER, AND SAID THERE WAS NOW A POSSIBILITY OF REACHING
AGREEMENT ON OIL PRICES. IN MORE GENERAL TERMS, HE EXPRESSED THE
VIEW THAT IT WAS IN THE BEST INTEREST OF OPEC, AS WELL AS OF THE
INDUSTRIALIZED COUNTRIES, TO MAINTAIN COHESION AMONG ITS MORE

STABLE MEMBERS, PARTICULARLY SAUDI ARABIA, IRAN, KUWAIT, THE UAE, AND VENEZUELA, AND THAT WITHIN THIS GROUP VENEZUELA WOULD BE A MODERATING INFLUENCE. WITHOUT THIS UNITY, HE BELIEVES LEADERSHIP IN OPEC COULD SHIFT TO THE MORE UNPREDICTABLE COUNTRIES SUCH AS LIBYA AND IRAQ.

3. COMMENTING ON US ENERGY POLICY, HERNANDEZ SAID HE WAS VERY PLEASED WITH PRESIDENT CARTER'S ENERGY PROGRAM. HE WARNED, HOWEVER, AGAINST HEAVY RELIANCE ON SAUDI ARABIA TO SUPPLY US IMPORTS, SAYING THERE WAS A STRONG FACTION THERE WHICH DID NOT WISH TO INCREASE PRODUCTION. HE SAID THAT UNLIKE BUSINESSMEN, WHO ALWAYS WISH TO SELL MORE, THE SAUDIS MAY IN THE FUTURE BE UNWILLING TO SELL SUFFICIENT OIL TO MEET DEMAND. HE SUGGESTED THEREFORE THAT THE US MAINTAIN DIVERSE SOURCES OF SUPPLY. HERNANDEZ ALSO QUESTIONED THE CONCEPT OF A STRATEGIC OIL RESERVE FOR THE US, EXPLAINING SOMEWHAT VAGUELY THAT IN TRYING TO PROTECT ITSELF, THE US MIGHT HELP TO PUSH UP OIL PRICES.

4. HE SAID IT WAS NOT THE CONTENT OF VENEZUELA TO CONTINUE TO INCREASE OIL PRICES, AND IN THIS CONTEXT NOTED THE ECONOMIC PROBLEMS FACED BY SPAIN, PORTUGAL, AND ITALY, AS WELL AS THE LDC'S. AS TO THE GOV'S POLICY OF DIVERSIFYING MARKETS FOR ITS OIL, HE POINTED OUT THAT STATEMENTS OF THIS POLICY ALSO ALWAYS INCLUDE A REFERENCE TO VENEZUELA'S NATURAL MARKETS, I.E. NORTH AMERICA. DIVERSIFICATION THUS DOES NOT NECESSARILY MEAN REDUCED EXPORTS TO THE U.S., BUT RATHER REDUCED VENEZUELAN DEPENDENCE ON SALES TO THE MAJOR OIL COMPANIES AND A SHIFT IN SALES TO DIRECT END USERS, SUCH AS UTILITIES, IN THE U.S. HE ALSO SAID, HOWEVER, THAT PETROLEOS DE VENEZUELA EXPECTS TO MAINTAIN CONFIDENTIAL

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ITS SALES AGREEMENTS WITH THE COMPANIES FOR THEIR FULL FOUR YEAR TERM.

5. HERNANDEZ REFERRED REPEATEDLY TO THE EXHAUSTIBILITY OF VENEZUELA'S OIL RESOURCES AND THE CONSEQUENT NEED TO INVEST CURRENT OIL REVENUES WISELY. BUT, HE SAID, THE COUNTRY DOES HAVE THE LARGEST RESERVE OF NON-CONVENTIONAL OIL IN THE WORLD IN THE ORINOCO BELT. DEVELOPMENT OF THIS VERY HEAVY OIL WILL PRESENT A GREAT CHALLENGE, BOTH IN TERMS OF TECHNOLOGY AND INVESTMENT. WHILE THE MINISTRY HAD INTENDED AT ONE TIME TO TAKE AN ACTIVE ROLE IN THIS, IT HAS NOW BEEN DECIDED TO TURN ALL OPERATIONAL DEVELOPMENT OVER TO PETROLEOS DE VENEZUELA. PRESENT PLANS ARE TO INSTALL A PILOT PLANT TO EVALUATE AVAILABLE PRODUCTION PROCESSES AND COSTS. HE ESTIMATED PRODUCTION COSTS COULD BE REDUCED BELOW THOSE OF ALASKAN OIL. PRESENT TECHNIQUES, HOWEVER, RECOVER ONLY A VERY SMALL AMOUNT OF THE OIL IN PLACE. HE NOTED THAT A NUMBER OF COMPANIES ALREADY HAD EXPERIENCE WITH THIS TYPE OF OIL, BUT BECAUSE THE MAJOR RESERVES ARE LOCATED IN VENEZUELA, HE THOUGHT MULTINATIONAL COMPANIES MAY NOT BE INVESTING

ENOUGH IN DEVELOPING THE NECESSARY SPECIALIZED TECHNOLOGY. FOR THIS REASON, THE GOV HAS SOUTHT GOVERNMENT TO GOVERNMENT AGREEMENTS IN THIS FIELD, SUCH AS THAT WITH CANADA.

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R 141358Z MAY 77
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC 7650
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C O N F I D E N T I A L SECTION 2 OF 2 CARACAS 4830

LA PAZ FOR ASSISTANT SECRETARY TODMAN

6. HERNANDEZ EXPRESSED INTEREST IN COOPERATING WITH U.S. INSTITUTIONS IN HEAVY OIL AND OTHER ENERGY RESEARCH, AND INDICATED THIS COULD BE DISCUSSED DURING PRESIDENT PEREZ'S JUNE VISIT TO THE U.S. HERNANDEZ EXPECTS TO ACCOMPANY THE PRESIDENT. HE ACKNOWLEDGED THERE WAS A CERTAIN DEGREE OF SENSITIVITY OVER FOREIGN INVOLVEMENT IN DEVELOPMENT OF THIS AREA. HE INDICATED A PREFERENCE THAT ANY FORMAL AGREEMENT IN THE U.S. ON HEAVY OIL RESEARCH BE WITH A POLITICALLY "SAFE" INSTITUTION, SUCH AS A UNIVERSITY (THAT IS, NOT ONE OF THE MAJOR COMPANIES). HE ASKED WHAT THE U.S. WISHED TO ACCOMPLISH IN THIS VISIT, AND EXPRESSED INTEREST IN THE SUGGESTION THAT PERIODIC INFORMAL DISCUSSIONS BE INITIATED WITH HIS U.S. COUNTERPARTS, SUCH AS DR. SCHLESINGER, BEGINNING WITH THE JUNE VISIT. HE NOTED WITH REGRET THAT HE HAD NOT BEEN ABLE TO REPAY MR. ZARB'S VISIT TO VENEZUELA A YEAR AGO.

6. HERNANDEZ SAID IT WAS NOT IN VENEZUELA'S INTEREST TO APPEAR TO BE DECEPTIVE IN ITS DEALINGS WITH THE EX-CONCESSIONNAIRES ON THE ISSUES PENDING FROM NATIONALIZATION, AND EXPRESSED REGRET AT THE DELAYS IN COMPLETING THIS PROCESS. EVERYTHING IS NOW
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SET TO SIGN FINAL AGREEMENTS ON THE DEDUCTION FOR ASSETS FOR SOME COMPANIES, SUCH AS EXXON AND SHELL, AND HE SAID THESE WERE ONLY BEING HELD UP BECUASE HE HAS NOT BEEN AVAILABLE TO TAKE THE FINAL ACTION. HE ASSURED US THAT HE, AS WELL AS PRESIDENT PEREZ, DEFINITELY INTEND TO COMPLETE THIS BEFORE THE U.S. VISIT. ASKED ABOUT THE VARIOUS TAX MATTERS, HE EXPLAINED THAT THE PRESIDENT HAD ALSO INSTRUCTED FINANCE MINISTER HURTADO TO RESOLVE THESE QUICKLY, AND SUGGESTED THAT THIS POINT BE RAISED DIRECTLY WITH PRESIDENT PEREZ.

7. THE CASE OF OCCIDENTAL PETROLEUM, HERNANDEZ SAID, WAS VERY SPECIAL IN THAT THIS WAS THE ONLY COMPANY WHICH HAD NEVER TAKEN ANY EARNINGS OF OF VENEZUELA. HE HAD PERSONALLY DETERMINED OCCIDENTAL'S DISCOVERY IN LAKE MARACAIBO TO BE COMMERCIAL, AND THIS ELIGIBLE FOR COMPENSATION, BASED ON STRICTLY TECHNICAL CRITERIA, BUT, BECAUSE OF THE SERIES OF COINCIDENCES IN THE TIMING OF THE COMPENSATION PROCESS AND THE BRIBERY CHARGES AGAINST THE COMPANY BY ITS U.S. EMPLOYEES, THE COMPENSATION PROCESS HAD BEEN STOPPED. HE EXPRESSED THE HOPE THAT OCCIDENTAL WOULD TAKE ITS CLAIM TO THE VENEZUELAN COURTS, SAYING HE BELIEVED THE COMPANY SHOULD RECEIVE COMPENSATION FOR ITS INVESTMENTS HERE.
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